



December 27, 2007

CALGARY FIRM SEARCHES FOR OIL IN TETON COUNTY

By Melody Martinsen

A Calgary, Alta., oil and gas exploration and production company has been busy in Teton County this fall and winter, leasing mineral rights on private lands, conducting seismic studies and now identifying 12 drilling locations.

Primary Petroleum announced last week that it has completed its review of all the data gathered during the seismic study portion of its exploration and has now contracted with FX Drilling Co., Inc., from Oilmont, for an eight-well drilling program scheduled to start the week of Jan. 7.

The Teton Prospect covers some 97,400 net acres in Teton County and is offsetting to the Gypsy Basin which has produced more than 510,000 barrels of oil from two sections to date, the company said. The key targets for these multi-zone wells are the Madison oil and Sunburst gas formations. The current royalty rate on Primary's land in Montana is 12.5 percent.

Primary is a growing oil and gas company actively engaged in exploration and development activities in Montana and Alberta with its head office in Calgary and a branch office in Shelby. Company founder and President Mike Marrandino, in a telephone interview in mid-October, said he and fellow oil man Tim Brock founded Primary Petroleum in 2004.

"The biggest reason why we started up this company, is that our team has expertise in the western sedimentary basin," Marrandino said, and Montana is a big part of the sedimentary basin. He said Primary Petroleum believes the border between Alberta and Montana doesn't mean the geology changes - and oil and gas companies have found significant resources in Alberta.

"Our idea was to do the same thing in Montana, where we had expertise in the sedimentary basin," he said.

Montana is attractive to the Canadian company for four basic reasons, Marrandino said: the cost of acquiring land for lease is 8 percent of what it is in Alberta; the state lands royalties assessed by Montana are about half of what is assessed in Alberta; the fee simple lands royalties are roughly 25 percent less than they are in Alberta; and, the cost of operations and production is about 40 percent less than it is in Alberta.

"Bottom line is we went to Montana because we felt comfortable with the geology and our dollar went a lot farther," he said.

Primary Petroleum employs 19 workers and contractors and is a public company traded on the Canadian stock exchange, TSX Venture Exchange. "Everyone should have a piece of PIE," he said referring to Primary's stock exchange letters.

Marrandino said Primary Petroleum is a full-service company that leases mineral rights, explores for reserves, develops active wells for oil and gas and then sells the raw product to refineries. He would expect to sell any oil found in Teton County to regional refineries, he added.

So far, all of Primary's lease acquisition efforts in Montana have focused on private property and some state lands. Marrandino said his company was not interested in trying to acquire any development rights on federal lands, most of which are no longer available because of congressional action.

Primary Petroleum now has mineral rights leased on 292,564 net acres of land in Montana, with 80 percent of the leases on private property and 20 percent on state lands. Most of the leases vary in length from five to 10 years. The leases include the Pondera Prospect in Pondera County, the Tiber Prospect in Liberty and Toole counties, the Chalk Buttes Prospect in Powder River County and the Saturn Prospect in Daniels County.

Primary has been particularly active in Teton County because the company touched bases with Montana Overthrust Management, a middleman organization founded by Choteau residents Dan Lindseth and Harold Yeager to promote oil and gas development on private lands in the county.

Montana Overthrust Management presented to Primary that landowners would like to have local lands further explored and seek some other revenue in addition to traditional ranching and farming, which hasn't been all that lucrative recently, Marrandino said. "They were looking for a good corporate citizen who could come down, work with them, and put together an oil and gas exploration program," he said, and that program would in turn provide extra revenue for the lease holders and also help increase the tax base.

Marrandino said Primary Petroleum actually started exploration efforts here in 2004, and in the past three years has seen many more companies competing for mineral leases.

Teton County Clerk and Recorder Paula Jaconetty says that filing fees on land leases jumped sharply from 2005-06 to 2006-07. In 2005-06, she said, her office recorded 89 leasing documents for \$4,260 in filing revenue. In 2006-07, the office recorded 342 documents for \$9,597 in revenue. As of the first half of the 2007-08 year, the filing has slowed again with 60 documents processed for \$1,565 in revenue.

Marrandino says it's too early in the exploration process to say whether the "oil boom" of eastern Montana will replicate itself in Teton, Pondera and Toole counties.

"Usually booms happen when someone finds a good discovery, and then everyone else tries to follow in that footsteps and get a piece of it," he said. Teton, Toole and Liberty counties really haven't had significant discoveries, yet, though there have been successes in the Pondera Field, Gypsy Basin Field and Bills Coulee field over the past 30 to 40 years. His company believes, based on the geologic studies, that significant finds do exist here.

Marrandino said the lull in oil and gas exploration along the Rocky Mountain Front hasn't just been tied to issues with federal leases. The industry economy has contributed to the quiet years here as well.

When energy prices are low, people go to places where it's the easiest and simplest places to drill, he said. When energy prices rise, then more places are looked at. The major oil and gas players have taken such big land positions in Alberta, that for small start-ups like Primary Petroleum, trying to acquire large portions of contiguous lands is very difficult, he said. Because of that, the smaller companies are willing to look elsewhere.

Primary Petroleum believes that Montana is a good place for juniors to go and develop, and as it becomes more well known, he would expect the major companies to return, he said.

The Teton County commissioners are pleased as punch at the oil exploration business returning to the county for the first time since the 1970s.

Even with liberal tax breaks granted to oil and gas companies, the county will receive more production tax revenue if the companies are successful. "If they're not drilling, we know there isn't a chance," Commissioner Arnie Gettel said recently. "Something is better than nothing."

The additional revenue from the land leases will also help struggling agricultural producers a little too, he said.

Commissioner Joe Dellwo (who has property on which Primary is exploring), said the tax holiday would defer much new tax revenue for the first 18 months of production, but any taxes are better late than never. "We'll take it when it comes," he said.

They said the county received about \$60,000 in production taxes in the 2006-07 tax year.

Dellwo said Primary's exploration seems to be focusing on the edges of the old oil fields. In recent weeks, the company has published legal notices on five different applications for permits to drill in Teton County. The state Board of Oil and Gas Conservation requires the notices to be published and is the agency that will grant the drilling permits.

Montana Overthrust Management cofounder Lindseth echoes the commissioners' positive sentiments on oil and gas production here. He said he and Yeager formed their company in the spring of 2005 in the wake of federal decisions sharply curtailing oil and gas development on federal lands along the Rocky Mountain Front.

Montana Overthrust Management was formed to get the word out to the regional energy industry that private lands in the county were still open to exploration and development, he said. "Our goal was to put on paper the private mineral owners' desire to have some responsible development done here," he added.

Montana Overthrust Management began negotiating leases for mineral rights on area lands and then began shopping those resources around. They wanted to find a responsible developer and believe they have found that in Primary Petroleum. Lindseth emphasized that Montana Overthrust has been a facilitator to help landowners connect with Primary Petroleum, but the two companies do not share a business relationship of any kind.

As part of their promotional efforts, Lindseth and Yeager traveled to Billings and met with industry representatives and with officials with the Montana Petroleum Association.

"Our bottom-line goal was to get some revenue cooking in the county," he said.

"We're happy with what's happening," Lindseth said. The first two phases are occurring: companies are leasing land, seismic exploration is being done. The next step is for production to occur.

"I'm just very confident that with the data they're going to be gathering with the new techniques" that some of the drilling will be successful, he said.